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Romania

Grain and Feed

Drought and heat severely impact grains production 2007

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Report Highlights:

Fall and spring crops have been badly hit by the adverse weather conditions this year, namely drought and excessive heat. Consequently, Romania will produce insufficient grains and oilseeds to cover its needs, filling the gaps with imports. Harvested wheat reached only 55% of the last year's production, while corn and sunflower will barely reach one third of last year's production. Due to these circumstances, the Romanian Government allocated funds to support farmers, for both current and upcoming crops. Economists estimate that the lower agricultural output of this year will be reflected in a GDP drop of 0.8-1%.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Bucharest [RO1]
[RO]

Grains and oilseeds production – less than half of last year output

According to official authorities harvested wheat reached only 3 MMT (55% of 2006 production), barley output reached 0.5 MMT (65% of 2006 production), while corn and sunflower will barely reach one third of last year's production, which means 3 MMT versus 8.5 million last year for corn, respectively 0.5 million versus 1.4 million MT for sunflower.

The extremely mild and dry winter as well as lack of precipitation in the spring generated a high water soil deficit leading to inadequate plant development and low yields. Wheat production reached 3 MMT on 1.85 million HA cultivated in fall 2006 (1.6 MT/HA). Reportedly, wheat quality is good.

The extended drought and heat in June and July severely affected corn, which is estimated to reach only 3 million MT on 2.5 million HA (1.2 MT/HA). The current estimates for sunflower indicate a production of about 500,000 MT on 0,875 million HA cultivated in spring (0.6 MT/HA). The acreage cultivated with rapeseed in the fall (four times higher than the previous year) generated an output 35% lower than expected, reaching only 365,000 MT versus 550,000 MT.

The feeding industry and consequently livestock sector are already facing difficulties in securing grains for animal feeds, as there are insufficient supplies and at higher prices. Farmers started corn harvesting early for further processing into animal feeding.

Domestic Support

Following this severe drought, the Romanian Government approved a Decision declaring areas affected by drought as disaster areas. The decision laid down the level of compensations for farmers whose areas were affected by drought, for both fall and spring crops. According to it, only areas affected in a proportion higher than 30% of production were eligible for compensations and the level of compensation does not exceed 70% of expenses incurred before the drought. The specific levels of compensations were approximately USD 310/HA for wheat, rye and triticale, USD 290/HA for barley and two-row barley and USD 250/HA for rapeseeds.

In addition, the GOR doubled subsidies for irrigation, from USD 155/HA to USD 280/HA. The subsidy represents roughly 70% of the total irrigation cost and the budgetary outlays will reach about USD115 million. The current irrigable surface in Romania, with the infrastructure in place, is 717,000 HA, but this year only half of it was covered by contracts between farmers and water suppliers, with only 10% (35,000 HA) being actually irrigated.

The measure to increase subsidies was aimed to encourage farmers to use the irrigation system, but as many areas did not have access to water sources or equipment was unaffordable to farmers, the results of this support were lower than expectations. Moreover, given the development stage of fall crops, no significant recovery occurred, as the plants were already dried up. These measures did not help much even the spring crops.

According to Ministry of Agriculture, about 1.7 million HA have been affected by drought, but only 720,000 HA would be eligible for compensations, that is 488,000 HA of wheat, 47,000 HA of barley and two-row barley, 175,000 of rapeseeds and 10,000 HA of spring two-row barley. In terms of insurance level, the authorities report that only 34% of the area planted last fall is covered by insurance (0.962 million HA out of 2,8 million HA).

Very recently, the Romanian Government supplemented the farmers' support necessary to cover expenses related to this fall crops. They reach about USD 205/HA for wheat, USD 165/HA for rapeseeds and USD 185/HA for any other crop.

Trade

Considering the current harvested wheat crop of 3 million MT, we expect imports to reach 1.1 million MT by the end of MY 07/08. Traders already sourced some wheat from Serbia, before the Serbian export ban was enforced. Currently the wheat is purchased on the local market at prices between 280 – 290 USD/MT (680-700 RON/MT), 20-25% higher than a month before, when wheat was harvested. Last year, for comparison, the wheat was available at \$100-115/MT, almost a third of this year's quotation. Millers are in need of durum wheat, but a price of 350-360 USD/MT is considered unaffordable.

Given the current U.S. wheat quotations, shipment costs, duties and handling costs, wheat would be available in Constanta port at 350 USD/MT, higher than the local market price. However, as internal wheat stocks will be depleted and the regional availability is limited, new sources for wheat/wheat flour should be identified.

Corn production is estimated to reach a historically low level of 3 million MT. Consequently maize imports sourced from Brazil are ongoing and they count a quarter of a million MT already. Brazilian corn is available at prices around 315 USD/MT, three times higher than last year's price. Normally corn would be sourced, if needed, from neighboring countries, but this year the exportable surplus in the region is lower.

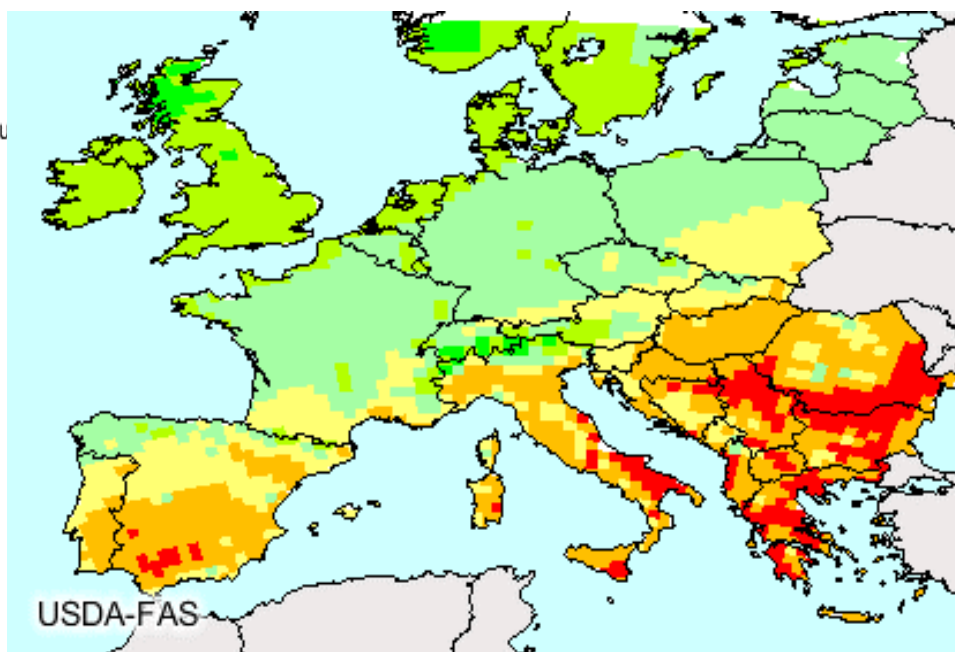
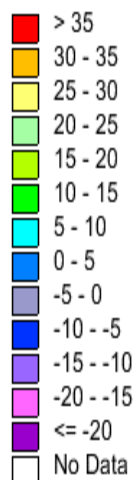
Romania has been a net exporter of sunflower seeds, with an exportable amount of about half a million a year. As this year the whole production is expected to be around this figure, the domestic processing-industry needs will only partially be covered. The deficit will be later ensured by crude oil imports, although at much higher prices.

Research Study regarding weather effects on plants

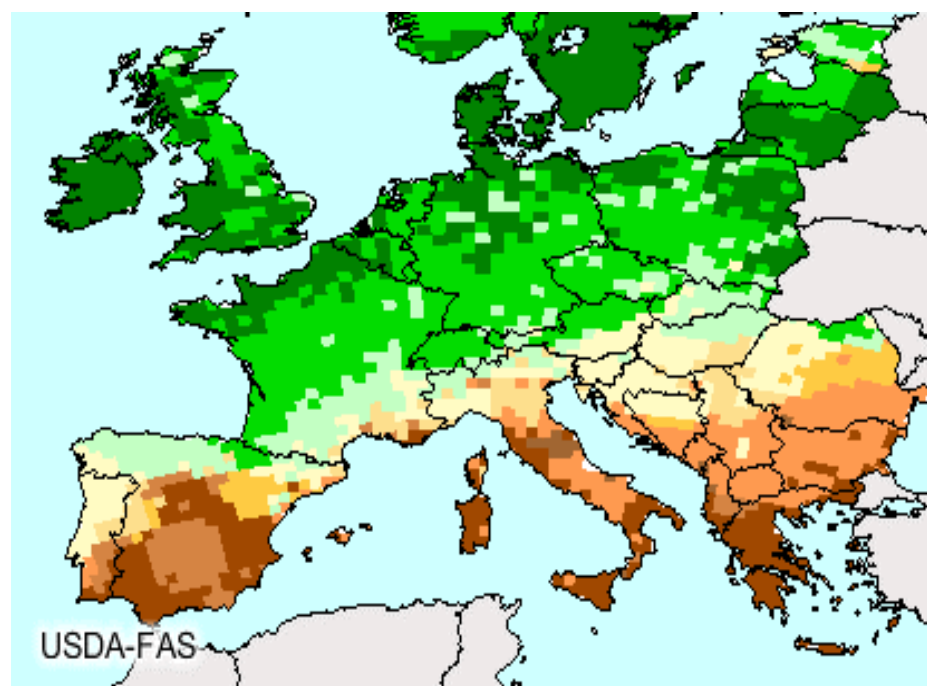
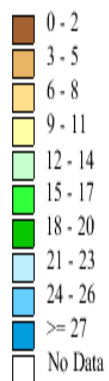
A study prepared by researchers at the Academy for Agricultural and Forestry Sciences concerning the vegetation stage revealed the effects of severe drought on winter and spring crops back in May 2007.

The main feature of the last winter was the rainfall deficit, down by 50-100 mm compared to the multi-year average rainfall. Precipitation during March alleviated the soil moisture deficit, allowing for a relatively normal development of winter crops. Nevertheless, the water deficit deepened further during April and May, given the high water demand of plants in that stage of development, evaporation by wind, but especially lack of precipitation. Low soil moisture has been reflected in non-uniform and delayed spring crops germination.

The following pictures provided by International Production Assessment Branch of FAS/USDA are very relevant for a description of the weather conditions during late July and August in Romania.

**Last decade
July 2007**Maximum Temperature
(Celsius)**July 2007**

Number of Rain Days



Soil moisture level

